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SUBJECT: SOMALIA - WHAT WE KNOW ABOUT THE TFG'S FINANCES

1. (SBU) Summary: The Somalia Transitional Federal Government's (TFG) finances are generally funneled through four accounts that we are aware of: a UN trust fund, the PriceWaterhouseCoopers (PWC) mechanism, the Central Bank, and a government account at the Somali money transfer company Dahabshil. The TFG seems to be relying at the moment on the PWC mechanism, to which the U.S., Chinese, and the Libyans have given over \$2 million, and on Dahabshil, where Mogadishu port revenues ranging from \$600,000 to \$1.3 million per month are deposited. The Dahabshil account is the most opaque account although steps, including the recent formation of an oversight committee, are being taken to improve its transparency. End summary.

2. (SBU) According to the UN, the TFG Finance Ministry, and other officials, the TFG relies on four separate accounts through which both donor money and government revenue is flowing. The Central Bank of Somalia holds U.S. Dollar and Somali shilling cash, and also receives funds via an account at commercial bank Standbic (the East African division of South Africa's Standard Bank). The Central Bank also has a SWIFT international banking code. The Bank receives its U.S. dollar cash via money transfer companies (known as hawalas). When the Central Bank requires cash from one of the TFG's accounts, hawalas electronically receive the money in Mogadishu and deliver the cash (for a hefty fee) under tight security. The hawalas in turn maintain reserves by flying cash into Mogadishu from their headquarters and branches in northern Somalia and the Gulf.

3. (SBU) The Government of Norway will soon test the reliability of the Central Bank and Health Ministry by depositing \$100,000 for use on a small health initiative and infrastructure renovations at the Health Ministry and its environs. The Norwegian Embassy believes that the money will be used responsibly. If that proves to be the case, the Norwegian Foreign Ministry plans to undertake further funding via the Central Bank.

4. (SBU) Second, the United Nations Political Office for Somalia (UNPOS) maintains a trust fund for donor contributions to TFG security institutions. That trust fund has received \$800,000 in funds generated during the April Brussels TFG security pledging conference, according to the UN. Donors to the fund include Norway, Turkey and the Philippines. Disappointingly, to date UNPOS has used none of the money for direct assistance to the security services. According to the UN, the money has been used instead for Joint Security Committee expenses and to fund a conference of former Somali military officers in Washington. The remainder may be used to host a reconciliation workshop for Somali

clerics, and to pay the trust fund's sixteen percent overhead.

¶5. (SBU) In June, the TFG entered into a contract with PriceWaterhouseCoopers to manage donor funds. Under the agreement, PWC is obliged to certify that contributions are being used appropriately. PWC charges a four-percent commission for its services. So far China (\$500,000) and the United States have contributed \$735,000 into the PWC mechanism. According to the Chinese Embassy and a TFG Finance Ministry official, the Chinese money was used to re-pay a Somali contractor for provision of food and water to TFG troops. The Chinese Ambassador to Kenya told SRSG Ould-Abdullah that a second donation was under consideration. U.S. money is earmarked for vetted troops' salaries, food and equipment.

¶6. (SBU) Remarkably, the TFG itself has also deposited \$1.6 million in cash given by Libya into the PWC mechanism, a sign the government may be serious about accounting for large cash donations. The TFG instructed PWC to transfer \$1.37 million of that money to the Somali Central Bank on November 16 to provide the following one month's operating funds for the Transitional Federal Institutions:

--President's Office	\$95,000
--Prime Minister's Office	\$72,000
--Parliament Speaker's office	\$75,000
--Parliamentarian's Salaries	\$660,000
--\$12,000 for each of 39 ministries	\$468,000

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¶7. (SBU) Per the agreement, PWC, working with the Treasury Ministry, Central Bank, and Accountant General's office, is monitoring disbursement of the funds. In addition, the government has publicized the infusion of money in order to dissuade corrupt TFG officials from denying the TFG's debtors and civil servants payments to which they are entitled. We are urging the TFG to gain Libya's permission to publicly report on PWC's certification process in order to build the confidence of potential donors.

¶8. (SBU) A TFG account at the trusted Somali hawala Dahabshil may be the most important government account. In response to widespread graft at the Port of Mogadishu, Sharif's government decreed that the port's customs revenue would be deposited in a TFG account at Dahabshil. The decision was widely applauded as an attempt to reform the port's notoriously leaky revenue collection process. TFG officials tell us that only a few senior government ministers have the authority to withdraw money from that account. Once the Central Bank has opened an office at the port, the officials say, all port revenues will flow through the Central Bank only. (Note: In the interim, the TFG on November 22 announced that it had formed a ten-person committee that was charged with monitoring the efficiency of port operations. Among the committee's responsibilities, is working closely with revenue collection officials to improve transparency. End note.) We have no information on the account's current balance but, according to a well-informed TFG official, the port generated an average of \$600,000 per month from June to February, and \$1.3 million per month from March to May. The variance in monthly revenue is due to the effect of seasonal winds on ship traffic into the Mogadishu port.

¶9. (SBU) In October, the TFG released an estimated budget for its normal operations. The budget justifies ministry outlays by listing wage costs, recurring costs, fuel, rent and other expenses. (Comment: Despite an expected variation in the ministries' expenses, each ministry's budget totals precisely \$12,000, which suggests that the budget does not truly reflect the ministries' actual operational needs. End Comment). The TFG estimates the armed forces' operational costs at \$1.8 million per month. The budget document does not

specify the size of the force that is to be funded by the projected budget.

¶10. (SBU) Comment: The current TFG is, perhaps belatedly, more transparent about its finances than its predecessors. There are nevertheless the inevitable rumors, a few of which seem credible, of other hidden government accounts, as well as of extremely large individual accounts in the Gulf and elsewhere. The most liquid account, and the one we know the least about, is the Dahabshil account into which port revenues are deposited. It is not clear even to many insiders who has access to that account, and where that money is currently going, but the projected opening of a Central Bank office in the port might ultimately shed more light on the TFG's use of port revenues.

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